REDUCING RATES
A Plan That Works

June 2003

NOVA SCOTIA

Environment and Labour

Reducing Auto Insurance Rates in Nova Scotia
The Government's Plan

Auto insurance is mandatory for drivers in Nova Scotia. Government has an obligation to ensure that consumers can get adequate coverage at a fair price. Affordability and availability are the most pressing issues. We will change provincial law to solve this problem for Nova Scotians.

The Government will implement a new automobile insurance law that produces average savings of 20% for consumers. The Government's measures are designed to reduce the number of consumers who are placed in Facility Association. These levels should return to the usual level of 2.2%, from the current 5%. Those who benefit from this initiative will see the most substantial premium reductions.

Other factors also play a part in the dissatisfaction consumers feel with auto insurance. Communication is a big one. Clear communication will help solve some of the confusion and mistrust that has turned a problem into a crisis. The Government will ensure that the insurance industry treats customers fairly, and clearly explains both what they are selling and how price is determined. The Government will help consumers understand what they are buying, how to get the coverage they really need, and how their decisions will affect price.

We must also remember that Nova Scotia is a small market for a global industry. Cooperating with other Atlantic provinces to set common requirements and expectations of the industry will produce benefits for the consumer. While regional consultations continue, the Government is moving ahead with immediate reforms for the Nova Scotia auto insurance market.

Lower Rates for Nova Scotians

The main points of our plan are:

• "Section A" (third party liability) benefits will continue to provide full coverage for serious injuries. Consumers will continue to enjoy full and fair compensation for economic losses arising from minor injuries; however, excessive damages for pain and suffering will be excluded or limited to standard amounts. The new law will be written to ensure an average premium reduction of 20%.To help in the design of the best approach to achieve this we will be retaining an actuary.

• Consumers will have the ability to purchase additional, enhanced "Section B" (accident)

benefits.

• A new rate review mechanism will mean rates are approved prior to use. Insurance companies will be limited in their rate filings to once a year. This is the strongest regulation of rates proposed in Nova Scotia. A newly established Nova Scotia Insurance Review Board will review and approve the rates. Recruitment for board members will begin immediately so that preparation for review and costing will be in place at the time the legislation is passed.

• Insurance companies will be required to provide clear reasons to a driver for denying coverage.

• A prohibition will be placed on rules that are unfairly discriminatory or lead to persons being unfairly placed in high-cost Facility Association insurance coverage.

• Government will provide - and require insurance companies to provide - clearer information to consumers.

The Government sees these changes as complementary to the work that will be conducted by the Council of Atlantic Premiers. Government expects to see immediate reductions in the rate filings to the Nova Scotia Insurance Review Board. If they are not forthcoming, other options will be considered, including a publicly run system in conjunction with the other Atlantic Provinces.

The Government is also concerned that difficulty in accessing other types of insurance, such as property and casualty insurance, is affecting the ability of Nova Scotians and businesses to operate. We have been carefully monitoring the situation and have assisted in several cases. The possibility that the availability and price factors that have affected automobile insurance may move to other types of insurance must be closely monitored. Should legislative revisions be required for property and casualty insurance, they will be incorporated into the Fall legislative agenda.

Introduction

The issue of auto insurance has focused the attention of all Nova Scotians. Cost is a primary concern, but it is not the only one. Other important concerns include the application of industry rules, difficulty with understanding what the product is and does, and how it is applied.

The Government has undertaken a series of initiatives in auto insurance over the past year in an effort to determine the reasons behind the sudden increases in premiums and the lack of availability of coverage.

Actions To Date

• The province asked the Nova Scotia Utility and Review Board (UARB) to look at rising car insurance rates in February 2002.

• The Department of Environment and Labour published "A Consumer's Guide to Buying Auto Insurance" which can be obtained from the Office of the Superintendent of Insurance and Access Nova Scotia offices across the province.

• The Government issued a discussion paper, *The Road Ahead*, and asked Nova Scotians to provide feedback and suggest solutions to key aspects of auto insurance.

• On April 11, 2003, the Government appointed a Consumer Advocate to listen to consumers and others with an interest in this matter and to report back.

• The Government introduced Bill 45 on May 5, 2003, to ensure no further rate increases were implemented during the "time out" while it was seeking responses from consumers and industry on the issues outlined in *The Road Ahead*. The legislation was passed by the House of Assembly later in May.

• The Utility and Review Board released its decision on insurance rates on May 13, 2003. It found that rates were fair in light of the artificially low rate of return insurance companies had received over the past 10 years, but that there were serious problems in the industry.

• On June 4, 2003, George Jordan, the Consumer Advocate, released his Interim Report. He reported that the people of Nova Scotia have told him that the auto insurance system in this province is broken. About 3,000 people told him that the system is in serious need of an overhaul. The industry, itself, acknowledges a "crisis" and says it is time for action.

• On June 18, 2003, the Atlantic Premiers met to discuss auto insurance issues and to lay the groundwork for co-operation in the Atlantic Provinces in dealing with the problems we all face.

A great deal has been done so far–but more steps need to be taken, and that is exactly what the government will do. Auto insurance is a complex and difficult issue. While this Government will take action to provide immediate relief to consumers, we also have a responsibility to provide long term solutions to Nova Scotians.

Key Government Values and Principles

Ultimately, reform of the auto insurance system should strike a balance between the cost of insurance and the coverage provided. It should ensure coverage is appropriate and available, and that pricing is fair and transparent to consumers and providers who operate within a competitive marketplace.

We believe that:

• Government must work to ensure that consumers receive a fair deal in purchasing insurance, and in receiving fair and reasonable coverage for their premium expenditure.

• Every driver should be able to obtain insurance coverage.

• Consumers should know and understand what benefits they will receive or not receive in return for their premium; what options exist; the costs of each; and if facing a rate increase, why this may have happened.

• Government should consult with Nova Scotians in the establishment of insurance standards.

The Plan to Improve Auto Insurance

The Government has heard from consumers directly and through the work of the Consumer Advocate. It is making improvements in the areas of affordability, accountability, and consumer support.

Affordability

Because auto insurance is mandatory to legally drive in Nova Scotia, the Government has an obligation to ensure that a fair price is charged for adequate coverage. Many consumers believe they are not getting a fair price. The UARB has indicated that there is a problem in

the industry and in the way it is regulated. These problems have recently exposed Nova Scotians to large increases in premiums.

The different parts of an insurance policy are related and if pressure is brought to bear on any one part of the product, the prices for the other parts will change. This is part of the complexity of the problem and means that there are few simple solutions.

Effective insurance reform will involve a number of steps, that when taken together will reduce rates while providing improved benefits for Nova Scotians.

Nova Scotians need greater choice when it comes to purchasing insurance. That way they can decide what level of coverage to purchase, and at what price. Consumers also need the complexity and confusion removed.

The Government's plan will include:

- **Section A:** full coverage of liability for serious accidents and injuries caused to others. Minor injuries would be excluded or limited to standard compensation amounts for pain and suffering and other non-monetary damages. Discussions with the medical community will occur to ensure the limits and definitions are clear. The control of minor injuries addresses the major factor behind premium increases. Claims for minor injuries will be controlled or limited, to ensure premiums are stabilized.

  Some companies have indicated that they are willing to provide coverage to consumers who wish to retain the right to sue for pain and suffering. The Government will continue to consider the consumer optional tort model if the results of the legislative and regulatory changes are favourable. Other coverage options are usually provided to consumers in addition to the minimum standards that are legislated. Our government fully expects the insurance industry to respond to this change in a positive way for Nova Scotians.

  Government is concerned that the current minimum level of $200,000 for Section A coverage is not enough and will increase it to $500,000. Although this increase may raise costs for a few high risk drivers, most Nova Scotians (over 90%) already have at least $500,000 - or even $1 million - of insurance coverage under this section of their policies.

  Other changes to the injury compensation system will help reduce costs. These include allowing courts to impose a structured settlement (which also means income tax savings), eliminating double claims for injuries that are compensated by an accident victim's own insurance, and provision for mediation and arbitration to

settle claims.

- **Section B:** this is the portion of the insurance policy that sets out standard benefits that cover drivers who have no other insurance, such as a disability policy. We think there should be expanded levels of choice in Section B coverage that will allow those who want extra coverage to purchase it.

- **Section C:** comprehensive and collision coverage will remain the only optional part of the policy. This insurance covers the cost of your car, if it is damaged, stolen or destroyed. The Government proposes no changes to this section.

- **Section D:** the uninsured or unidentified motorist coverage, is insurance that protects you if you are injured by a motorist that is unidentified or uninsured. The Government proposes no changes to this section.

Examples of the savings from the changes to Section A coverage are listed in Appendix A. Government will subject the basic insurance policy and Facility Association insurance rates to regulation and the Nova Scotia Insurance Review Board will be set up to examine rates. This board will be in place by November 2003 so that insurance companies may submit their proposed reductions to have effect for January 1, 2004.

Limiting excessive claims in the case of minor injuries provides a number of benefits:

1. A substantial reduction in the price of the product – 20% overall.
2. Certainty to consumers about what they will be paid if they have minor injuries.
3. Certainty to insurers about the costs they are covering.

Some want to maintain the right to sue, regardless of the costs. They see this as an issue of justice. Consumers, however, pay for their own protection under all other sections of the standard insurance policy. If an uninsured or unidentified driver causes a severe injury to you, your own benefits - not the other driver's policy - protect you.

A concern is that despite savings, prices will start to increase again. However, this feature is the key to containing costs in the long term. Some variant of it has been adopted in five provinces (Ontario, Saskatchewan, Manitoba, Quebec and now New Brunswick), and those provinces have the most stable rates.

Facility Association

The Government will set a participation target of 2.2% of policy holders in Facility Association. Facility Association (FA) is a mechanism for the insurance industry to provide

insurance coverage for high risk drivers who cannot get insurance any other way. Statistics presented to the Utility and Review Board (UARB) show that FA's share of the market has increased significantly from 0.8% in 1999 to almost 5% in 2002. While not explained to the UARB, this increase appears to be due to industry attempts to limit potential losses in "hard times". What has occurred is that FA has picked up many people that insurers see as potentially high risk or have no capacity to cover, even if they have perfect driving records.

Facility Association rates are controlled by the UARB, and unlike rates for conventional auto insurance, must be approved before they are implemented.

Consumers typically do not have much information about FA. The Facility Association has recently been credited by the UARB with providing information to consumers after they find themselves in this category of insurance. However, consumers need this information before they end up in FA, probably when they purchase their initial insurance policy. Then they can take action that would help prevent them from being placed in this group at a later date.

Consumers often have a difficult time finding out why they have been placed in FA. "Why will no other insurer touch them?" they ask. Government will take action to see that this information is provided by the refusing insurer. Facility Association is being asked to cover five times as many vehicles in 2003 as it did in 1999. People who have clear driving records are being asked to pay premiums of thousands of dollars a year. Government will take action by passing regulations that preclude the use of FA coverage for minor incidents, particularly accidents that were not the insured driver's fault. The Facility Association will be regulated by the new auto insurance review board and will be limited to one rate application per year.

The thousands of drivers who have been transferred to Facility Association coverage in recent years have seen the most drastic price increases. Eliminating the practice of making these unreasonable transfers will see a large number of drivers "move back" to regular insurance policies. This will mean very substantial savings in insurance premiums for these drivers.

Require Rate Review

In its decision on the insurance review, the Utility and Review Board (UARB) noted that it was time for Government to consider new regulatory models. A review of rate structures and the underwriting rules that underlie them is necessary to ensure that any benefits from our proposed changes are passed on to consumers.

It is important that the Consumer Advocate participate in these reviews to represent the

interests of seniors, small businesses and others who have been affected by rate increases.

The Government thinks that auto insurance issues need a new oversight body that would deal exclusively with auto insurance, in order to provide a broader view of consumer issues and to ensure the appropriate expertise is in place to deal with the specific issues of auto insurance.

The role of the Nova Scotia Insurance Review Board would be to provide regulatory services that protect the public interest and enhance public confidence in the insurance sector, to make recommendations to Government about the insurance industry, and to ensure proper resources are available for the board to examine and approve auto insurance rates. If the mandate for this model was expanded to serve the Atlantic Provinces, this would be an excellent way of achieving a measure of regional harmonization on these issues.

The Government believes that current practices must be substantially changed to ensure that:

1. The cost of living rates for the previous year be considered before insurance companies raise rates.
2. The basic rates set by insurance companies be reviewed annually in advance of their use, and that insurance companies be limited to one application per year.
3. The operational costs of the new board will be assessed against the insurance industry.
4. Underwriting rules, as part of the rate schedules, will be subject to approval and to public scrutiny.

These are the toughest rate regulations announced in Nova Scotia to date. Announcing this plan now, with the additional requirements we are suggesting under "Accountability", allows the insurance industry time to get ready for the new business cycle, and to start developing and pricing the new options, well ahead of January 1, 2004, when the "time out" period established by Bill 45 ends. Government expects to see immediate reductions in the rate filings. If they are not forthcoming, other options will be considered, including a publicly run system in conjunction with the other Atlantic Provinces.

Accountability

Increased accountability to consumers means that insurance companies participate with government and consumers in making the system more fair. Consumers deserve adequate representation in Nova Scotia's insurance system. We will take steps to improve protection for consumers.

With our Atlantic counterparts, we will appoint a representative to sit on the national board of the Facility Association.

A concern raised by consumers was the increase in people driving without insurance. The insurance industry has knowledge of those who cancel auto insurance policies. The *Motor Vehicle Act* currently requires insurance companies to share this information with Government.

We will work with the industry to find ways for this information to be effectively and efficiently shared with the Registry of Motor Vehicles. The Registry, in turn, will expect drivers to provide proof of insurance coverage before processing vehicle licence renewals. Provision will be made for motorcycles and recreational vehicles, which many consumers only insure during the summer season when they are taken on the road. Better coordination will make our roads safer and support compliance activities.

Furthermore, the Government is making the following commitments to help consumers and to provide transparency in the insurance industry:

- We will update "A Consumer's Guide to Buying Auto Insurance" and expand its distribution, especially to new drivers.

- We will develop information for non-profit organizations such as the Boys and Girls Clubs and senior citizens' groups to advise them on what to look for when purchasing auto insurance.

- We will prepare a guide for small- to medium-sized businesses, such as courier companies and pizza delivery outlets, that provides information on risk management and best practices for purchasing insurance.

- We will work with the Nova Scotia Automobile Dealers Association to ensure information is accessible at point of purchase for dealers and consumers on the typical rates of insurance coverage for different types of vehicles.

- We will improve the Government web site to include information on underwriting rules and links to other sources of information.

- We will be looking for clarity in insurance industry filings and documents, and will assist the industry to comply with plain language requirements. We will also prepare explanations of some of the more complex issues. This is another potential area of regional co-operation which would benefit us all.

- We will require the insurance industry to provide full, understandable and timely

reasons if they cancel or decline to renew a policy.

• We will propose regulations that will prevent insurers from unfairly discriminating in rate structures and rules on grounds that are not relevant to the determination of risks.

Continued Consumer Support

We will extend the position of the Consumer Advocate for two years. The Consumer Advocate will be tasked with research, consultation, and the representation of consumers during rate review hearings. The Consumer Advocate will monitor the implementation of these changes and note the impacts on seniors, as well as organizations such as the VON and Meals on Wheels, to ensure that consumers are seeing positive results.

Other Issues

We have addressed some matters on which we are taking immediate action to reform auto insurance. These matters are of such urgency that they need to be addressed now. This Fall, after an opportunity for further consultation and review, the Government will implement further reforms. That will give us basic and important improvements for Nova Scotians that will be long-lasting.

One important round of consultations that the Government will undertake will be with other Atlantic Provinces. An auto insurance task force is being established to prepare a draft set of harmonized legislation and regulation with 90 days to be introduced in the fall sitting of provincial legislatures. An eminent Atlantic Canadian will lead the task force, which will also conduct and complete a comprehensive study of the full costs of an Atlantic public automobile insurance system.

The Government is also concerned that difficulty in accessing other types of insurance such as property and casualty insurance is affecting the ability of Nova Scotians and businesses to operate. While we have been carefully monitoring the situation and have assisted in several cases, the possibility that the availability and price factors that have affected automobile insurance may move to other types of insurance must be closely monitored. Should legislative revisions be required for property and casualty insurance, they will be incorporated into the Fall legislative agenda.

Driver Safety and Accident Prevention

No matter what reforms may be implemented, accident prevention remains the best way to contain insurance costs. The Government has taken many steps to reduce the likelihood of accidents, with tougher laws against drinking and driving, the graduated licensing

program, and more enforcement of the rules of the road.

This work will continue. One step will be increased driver education, bringing potential hazards to the attention of drivers. Not only do motorists need to be aware of safe driving habits; they also need to be aware of vehicle maintenance issues. Being aware of - and taking actions to correct - such issues as worn tires, ageing brakes and wheel alignments will also lower the chances of being in an accident.

Moving Forward

The Government's six point plan will further reduce costs and improve consumer protection through the following steps:

- Consumers will have the option to purchase additional, enhanced accident benefits.

- Consumers will have a basic insurance package that reduces rates an average of 20 per cent by limiting benefits for minor injuries

- Consumers will be protected against future rate increases by a new rate review mechanism. This will include the creation of the Nova Scotia Insurance Review Board to oversee all insurance issues, including auto insurance and property and casualty insurance. The new board will conduct rate reviews, examine and ensure fairness in insurance rules, and monitor the system to ensure reforms are working for consumers.

- Consumers who are denied insurance coverage will now receive clear reasons in writing from insurance companies. This is addressed in the *Automobile Insurance Underwriting Practices Regulations* introduced today by government. The regulations also prohibit companies from discriminating against a potential customer based on factors such as age, gender, or previous coverage in Facility Association.

- Consumers will be protected from unfair discrimination, especially those that unfairly place them in high-cost Facility Association coverage. This will significantly reduce the number of people who have to be covered by the high-cost Facility Association and will provide further relief to those who have been hardest hit and placed there unfairly in recent years.

- Consumers will receive better information from insurance companies and government on issues that impact their rates and coverage. Specifically, Government will introduce an educational driver safety campaign

All of this will be done by the Fall, when the necessary authorizing legislation will be put into place.

We will also be working on longer term improvements in auto insurance, including regional co-operation initiatives, that offer promise of further benefits to Nova Scotians.

In consultation with Nova Scotians, the Government is taking action now, and will take further action when the Legislature next sits, to end the current problems and develop lasting solutions in the field of auto insurance.

Work Plan

This is the schedule that Government is proposing to carry out as it improves auto insurance for Nova Scotians this year.

Work Plan	Time Frame	Activities
Release of the Government Insurance Plan and new Underwriting Regulations	June 25	Distribute to all Nova Scotians through website, Access Nova Scotia and to those who have contacted Consumer Advocate.
Regulations in effect	July 1	Each insurer required to provide written reasons to consumer outlining the reasons for refusal or cancellation of insurance.
Research issues and options	July 1 to July 21	Continue discussions with Consumer Advocate on the details of the proposals and consumer impacts; continue consultation with stakeholders.
Prepare legislative proposals for Cabinet review	July 21 to August 31	Detailed Drafting.
Release drafted proposals	September	Broad distribution as noted above.
Regional Task Force Report	By September 30	Report to the Council of Atlantic Premiers from the external Task Force.
Final report of the Consumer Advocate for 2003	October	Final recommendations for this year reviewed for incorporation into legislative and regulatory changes.
Implement legislative and regulatory proposals	Fall	Legislation moved through the House of Assembly and regulations finalized.
New regime in place	November	Continued monitoring for compliance and results.

Cost Scenarios

The attached scenarios outline the impacts of the average 20% reduction on actual consumer insurance policies. The largest cost factor on all policies is Section A liability coverage. The other cost driver is Section C collision and comprehensive coverage, which is ***optional*** (except when a car is leased or subject to a loan with a financial institution). Consumers can control these costs through management of their deductible levels.

The insurance industry has indicated that limiting claims for minor injuries will reduce insurance costs 20% to 30% overall. For these examples, 20% has been used.

Example 1: A 73-year-old male driver, in Halifax, owns his 2000 Buick 4-door, drives for pleasure, and is retired. (No claims in 29 years; no moving violations or other driving infractions). In 2003, he has purchased $2 million in liability insurance, and has a $500 deductible for collision and $100 for comprehensive. The driver plans to increase his total deductibles to $1,000 for collision and comprehensive to save more money in 2004.

	TOTAL
2003 Premiums	$1,041
20% Reduction	- $208
New reduced rate	**$833**
Increase deductibles to $1000	- $200
Optional reduced rate	**$633**

*Owner would save up to **39 %** on his overall insurance bill in 2004.*

Example 2: A 44-year-old female driver in rural Hants County, owns her Honda 2001 CR-V 4-door, drives for pleasure, and lives less than 16 kilometres to work. (No claims in 6 years, no driving infractions). She has $1 Million in liability insurance. She raises her deductibles (which are $250 for collision and $100 for comprehensive) to $500 for each.

	TOTAL
2003 Premiums	$1,044
20% Reduction	- $208
New reduced rate	**$836**
Increasing deductibles to $500 each	- $150
Optional reduced rate	**$686**

*Owner saves **34%** on her overall insurance bill.*

Example 3: A married couple, both aged 33, own their 2001 Honda Civic LX 4-door, which was purchased with a bank loan. Insurance was purchased through an employee group plan. The owners have already taken steps to increase deductibles to save more money. They have a $1000 deductible for collision and $250 for comprehensive.

	TOTAL
2003 Premiums	$659
20% Reduction	- $131
New reduced rate	**$527**

*Owners save **20 %** on their insurance bill.*

Example 4: A single female driver, aged 28, owns her 2001 Saturn SC 2-door, which is subject to GMAC financing. She drives for pleasure, and lives within 16 kilometres of her job. (No claims in 3 years; no moving violations or other driving infractions).

	TOTAL
2003 Premiums	$1284
20% Reduction	- $277
New reduced rate	**$1007**

*Owner saves **20 %** on her insurance bill.*

Example 5:A single male driver, aged 25, owns a 1995 Saturn. He was placed in Facility Association because he has had a non-payment cancellation on his record within 3 years. He does not have any section C coverage, and his section A liability insurance is limited to $200,000. In 2004, the Section A coverage will increase to $500,000.

	TOTAL
2003 Premiums	$2,029
40% Reduction	- $812
New reduced rate	**$1,217**

*Owner will save **40 %** on his insurance bill.*

Some insurance consumers will see further reductions in the Fall when further legislative changes governing underwriting practices will be introduced.

ISSUE	Official Opposition (NDP)	Government (PC)	Third Party (Liberal)
System	Taxpayer-funded	Private	Private
Reductions	Unknown	20% +	15%
Benefit Caps	No limits	Compensation for pain and suffering for minor injuries limited / excluded to standard amounts	General damages based on a scale modified by UARB
Cost to Taxpayer	$2M (NDP estimate) $400M (NB estimate) $1.2B (IBC)	Approximately $650,000 (Nova Scotia Insurance Review Board, Consumer Advocate, Consumer Education, Consultants)	Unknown
Conducting Insurance Reviews	UARB	New specialized board (Nova Scotia Insurance Review Board) to review rates and practices	UARB to prepare damages scale within 90 days
Timing of Rate Reviews	Annual	Rates and rules must be approved prior to use once per year - Board's cost to be borne by industry	Automatic reviews only if increases exceed 5%; UARB or Consumer Advocate may initiate process
Discrimination	No discrimination on the basis of age, sex or marital status	No discrimination on issuing / renewing policies on basis of age, sex, marital status, vehicle age, lapse of coverage, not-at-fault accidents - In the fall, eliminate discrimination in setting rates and rating categories	UARB to review - suggests no discrimination on age, vehicle age, location and profession
Set-up Time	2 years	Now	90 days after election for initial review... unknown how long after that
Consumer Advocate	Represents drivers at UARB	Extend term for 2 years - monitors reforms, represents consumers and makes further recommendations for reform	Investigates complaints and trends
Safety / Education	Link vehicle registration to uninsured drivers	Increase driver / consumer education - make insurance part of vehicle registration process	Unspecified